# TURKEY

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## Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

| | 1996 | 1997 | 1998 | 1/ |
|---|---|---|---|---|
| *Income, Production and Employment:* | | | | |
| Real GDP | 186.7 | 190.4 | 200.7 | |
| Real GDP Growth (pct) | 7.2 | 7.5 | 5.0 | |
| GDP by Sector: | | | | |
| Agriculture | 30.7 | 27.6 | N/A | |
| Manufacturing | 38.5 | 48.2 | N/A | |
| Services | 91.8 | 91.0 | N/A | |
| Government | 15.3 | 17.1 | N/A | |
| Per Capita GDP (US$) | 2,962 | 3,046 | 3,162 | |
| Labor Force (000s) | 23,030 | 22,359 | 22,681 | 2/ |
| Unemployment Rate (pct) | 5.8 | 6.9 | 6.4 | 2/ |
| *Money and Prices (annual percent growth):* | | | | |
| Money Supply Growth (nominal M2) | 130.3 | 96 | 85 | |
| Consumer Price Inflation | 79.8 | 99.1 | 69.7 | |
| Exchange Rate (TL/US$ annual average) | 81,137 | 151,239 | 259,000 | |
| *Balance of Payments and Trade:* | | | | |
| Total Exports FOB | 23.22 | 26.3 | 28.1 | 3/ |
| Exports to U.S. | 1.64 | 2.02 | 1.60 | 4/ |
| Total Imports CIF | 43.63 | 48.59 | 38.1 | 5/ |
| Imports from U.S. | 3.52 | 4.35 | 2.93 | 4/ |
| Trade Balance | -19.42 | -21.32 | -16.7 | 6/ |
| Balance with U.S. | -1.6 | -1.6 | -1.33 | 4/ |
| External Public Debt | 79.8 | 92.2 | 94.5 | 7/ |
| Fiscal Deficit/GDP (pct) | -8.2 | -7.7 | -7.2 | |
| Current Account Deficit/GDP (pct) | -2.4 | -2.5 | -2.6 | |
| Debt Service Payments/GDP (pct) | 6.4 | 6.5 | 8.8 | |
| Gold and Foreign Exchange Reserves 8/ | 25.0 | 27.2 | 31.0 | |
| Aid from U.S. | 0.36 | 0.31 | N/A | |
| Aid from Other Sources | N/A | N/A | N/A | |

1/ Unless otherwise indicated, 1998 figures are estimates based on available monthly data in November.

2/ 96 and 97 figures are as of October; 98 figure is as of April.

3/ Total exports for 1998 (January-December). Turkish Exporters Union estimate.

4/ As of July 1998.

5/ Imports from January through October. Source: State Statistics Institute.

6/ January through October 1998.

7/ As of March 1998.

8/ Includes reserves held by central bank and commercial banks.  1998 figure is embassy estimate for year-end.

*1. General Policy Framework*

From the establishment of the Republic in 1923 until 1981, Turkey was an insulated, state-directed economy. In 1981 the country embarked on a new course. The government abandoned protectionist policies and opened the economy to foreign trade and investment. The state gave up much of its role in directing the economy and abolished many outdated restrictions on private business. These reforms unleashed the country's private sector and have brought impressive benefits. Since 1981, Turkey's average 5.2 percent real GNP growth rate has been the highest of any OECD country. In terms of market opening, Turkey's efforts reached a new stage in January, 1996 with the inauguration of a customs union with the European Union. Turkey has now harmonized nearly all of its trade and industrial policies with those of the EU. Turkey has already begun to reap benefits from the customs union, particularly in terms of improved economic efficiency, which have had a positive impact on overall U.S. exports to and investments in Turkey. The long-term consequences of the customs union should be very favorable, particularly in terms of trade creation and investment.

Despite the impressive reforms introduced since 1981, Turkey continues to suffer from an inefficient public sector and weak political leadership. These factors, combined with a high domestic debt interest burden and the private sector's ingrained high inflation expectations, constrain higher growth rates. Consumer price index inflation has averaged about 78 percent since 1988, but dropped to 69.7 percent in 1998. In 1994, government attempts to manipulate interest rates triggered a financial crisis and forced the government to introduce a tough austerity program. The sharp 1994 recession was Turkey's worst since World War II. The economy bounced back strongly, however, growing by over 8 percent in 1995, and over 7 percent in 1996 and 1997. Strong export growth sparked a surge in imports of raw materials and intermediate and capital goods through mid-1998, as did the elimination of import duties and surcharges for most EU goods which accompanied the introduction of the customs union on January 1, 1996.

After declining in 1994 and 1995, the budget deficit and public sector borrowing requirement both rose significantly in 1996 and 1997, reflecting in part the cost of the 1995 elections and populist economic measures introduced by successive Turkish governments. The Yilmaz government, in power from July 1997 to November 1998, undertook significant (if gradualist) disinflationary reforms and permitted the central bank to continue its disciplined monetary and exchange rate policies, thus increasing market confidence.

Turkey and the IMF concluded a Staff Monitored Program (SMP) in mid-1998. The government met or exceeded its year-end SMP targets, including achieving a 54.7 percent year-end WPI inflation rate, its lowest since 1991. Further progress in implementing structural reforms could lead to an IMF funding facility or contingency fund in mid-1999. The government has set an ambitious year-end 1999 WPI inflation target of 35 percent as well as a $5 billion privatization target. To date, the Asian and Russian financial crises have not seriously affected Turkey's economy; however, the lingering effects of these crises and any slowdown in the EU or

U.S. economies (which take a 70 percent share of Turkey's exports) will restrict Turkey's ability to attract foreign capital or to grow its exports at the desired rate.

Building on significant liberalization of the economy in the mid-1980s, Turkey's private sector has become less dependent on the government. As a result, it has grown at an even faster pace than the overall economy, while it also expanded its share of Turkey's GDP. Turkey's most successful companies are foreign oriented and very competitive. Since 1993, bilateral trade with the United States has expanded more than 50 percent, totaling $6.4 billion at the end of 1997. While Turkish exporters have doubled their value of exports, U.S. companies have also experienced a significant increase in exports to Turkey, expanding both their market share and their overall value of trade. Unfortunately, investment levels remain flat, though significant opportunities remain in the energy and telecommunications sectors for further investments, should the government resolve investor concerns over access to arbitration rights and concerns over contract terms.

*2. Exchange Rate Policy*

The Turkish Lira (TL) is fully convertible and the central bank follows a stable real exchange rate policy. The rate is essentially market-determined, although the central bank sets a daily reference rate. The bank also intervenes in money markets to dampen short term exchange rate fluctuations and manage the TL's rate of depreciation.

Overvaluation of the TL from 1989-93 was a significant factor in the 1994 financial crisis. As a result, the TL depreciated against the dollar in real terms in 1994. Since then, the central bank has maintained a stable real exchange rate measured against a trade-weighed dollar/German Mark basket.

*3. Structural Policies*

Since 1980, Turkey has made substantial progress implementing certain structural reforms and liberalizing its trade, investment, and foreign exchange regimes. The resulting rapid economic growth and high rate of private business creation has generated tremendous demand for imported goods, particularly capital goods and raw materials, which together account for over 85 percent of total imports.

The government's failure to complete structural reform measures has constrained private sector growth and prevented the economy from functioning at full efficiency. State-owned enterprises still account for some 35 percent of manufacturing value added. Although many of these firms are profitable, transfers to state firms constitute a substantial drain on the budget. Government control of key retail prices (especially in the energy and utilities sectors) also contributes to market distortion, as prices are sometimes manipulated to meet political objectives (held in check before elections, accelerating after). The government actively supports the agricultural sector through both subsidized inputs and crop support payments.

Turkey and the European Union entered into a customs union on January 1, 1996. Nearly all industrial goods from EU and EFTA countries now enter Turkey duty-free. Turkey has adopted the EU's common external tariff for third countries, which has resulted in significantly lower tariffs for U.S. products. The government has also abolished various import surcharges. As part of the customs union agreement, Turkey has revised its trade, competition, and incentive policies to meet EU standards, which also help U.S. exporters.

*4. Debt Management Policies*

As of March 1998, Turkey's gross outstanding external debt was $94 billion, 51 percent of which is government debt. Debt service payments in 1998 will amount to an estimated 7.7 percent of GNP (and 36 percent of current account receipts). Turkey has had no difficulty servicing its foreign debt in recent years.

In 1997, Turkey successfully floated $2.8 billion in 10-year Eurodollar and Euromark issues, and in 1998, Turkey floated $2.4 billion in similar issues. As a result, Turkey's domestic debt stock has increased significantly. With the government forced to offer high real interest rates for short periods to attract capital, interest payments have become a large budget burden.

*5. Aid*

In 1998, the United States ended its support for Turkey through Economic Support Funds and Foreign Military Financing (market-rate loans). In 1998, the United States provided Turkey $4.0 million in assistance under a USAID-funded family planning program, $1.4 million in International Military Education and Training funding, and $500,000 in counter-narcotics assistance. Turkey receives significant grant and loan aid from the European Union, but much of this is on hold as the result of political disputes with Greece.

*6. Significant Barriers to U.S. Exports*

The introduction of Turkey's customs union with the EU in 1996 resulted in reduced import duties for U.S. industrial exports. The weighted rate of protection for non-EU/EFTA industrial products dropped from 11 percent to 6 percent. By comparison, the rate of protection for industrial exports from EU and EFTA countries in 1995 had been 6 percent; nearly all these goods now enter Turkey duty-free. There have been very few complaints from U.S. exporters that the realignment of duty rates under the customs union has disrupted their trade with Turkey. A significant number of U.S. companies have reported that the customs union has benefited them by reducing tariffs on goods they already exported to Turkey from European subsidiaries. The customs union does not cover agricultural trade or services. U.S. exporters have voiced increasing frustration over barriers to agricultural trade, most notably a ban on the import of livestock.

Import Licenses: Import licenses are generally not required for industrial products. The exception is products which need after-sales service (e.g. photocopiers, ADP equipment, diesel generators). Licenses are required for agricultural commodities. In addition, the government requires certification that quality standards are met for importation of human and veterinary drugs and certain foodstuffs. This has posed problems for U.S. exporters. In 1996 the government tightened standards for levels of various toxins found in grain, temporarily halting U.S. grain exports. Discussions with the Ministry of Agriculture successfully resolved the issue.

Government Procurement Practices: Turkey is not a signatory of the WTO Government Procurement Agreement. It normally follows competitive bidding procedures for tenders. U.S. companies sometimes become frustrated over lengthy and often complicated bidding and negotiating processes. Some tenders, especially large projects involving co-production, are frequently opened, closed, revised, and opened again. There are often numerous requests for "best offers"; in some cases, years have passed without the selection of a contractor.

The entry into force of a Bilateral Tax Treaty between the U.S. and Turkey in 1998 eliminated the application of a 15 percent withholding tax on U.S. bidders for Turkish government contracts.

Investment Barriers: The U.S.-Turkish Bilateral Investment Treaty (BIT) entered into force in May 1990. Turkey has an open investment regime. There is a screening process for foreign investments, which the government applies on an MFN basis; once approved, firms with foreign capital are treated as local companies. Although Turkey has a BIT with the United States, and despite its membership in international dispute settlement bodies, Turkish courts do not recognize investors' rights to third party arbitration under any contract defined as a concession. This is particularly problematic in the energy, telecommunications and transportation sectors.

### *7. Export Subsidies Policies*

Turkey employs a number of incentives to promote exports, although programs have been scaled back in recent years to comply with EU directives and GATT/WTO standards. The Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Certain tax credits are also available to exporters.

### *8. Protection of U.S. Intellectual Property*

Turkey's intellectual property regime has improved considerably since 1995. After years of complaints from western businesses and governments about weak intellectual property laws and lax enforcement, the Turkish Parliament approved a number of new laws in mid-1995 as part of Turkey's harmonization with the EU in advance of the customs union. The new patent, trademark, copyright and other laws, as well as Turkish acceptance of a number of multilateral intellectual property conventions (see below), have given Turkey a comprehensive legal framework for protecting intellectual property rights. The government has since amended some provisions of these laws to improve their compliance with TRIPS, notably amendments to the Patent Law in 1995. Draft amendments to the Copyright Law awaited parliamentary approval at the end of 1998.

The government is working to implement the new laws, for example by expanding staff in the copyright and patent offices, improving examination procedures for patent and trademark attorneys and educating judges and prosecutors about the requirements of the new law. However, the Turkish judicial system remains overburdened and it will likely be some time before the necessary elements for a smoothly functioning system are fully in place. The government has initiated a number of efforts to educate businesses, consumers, judges, prosecutors and others on the implications of the new laws. As an example, the Culture Ministry (the administrator of copyrights) began a campaign to apply a hologram to software, books and compact disks to distinguish them from pirated copies.

Turkish police and prosecutors are working closely with trademark, patent and copyright holders to conduct raids against pirates within Turkey. A number of seizures have been made, and several cases have been successfully brought to conclusion, although trade associations in the United States have complained the fines and penalties levied are insufficient to deter pirates. Turkish Customs officials have also seized a number of pirated goods at ports of entry.

Although there is still no “pipeline protection,” coverage for pharmaceutical products began in January 1999 in accordance with Turkey’s Customs Union commitments to the EU. In accordance with the TRIPs agreement's "mailbox" provisions, the Turkish Patent Institute has prepared hundreds of patents (led overwhelmingly by U.S. firms) for issuance on January 1, 1999.

Turkey also acceded to a number of international copyright conventions during 1995, including the Paris Act (1971) of the Berne Convention and the 1961 Rome Convention.

Turkey acceded to a number of international patent and trademark conventions in 1995, including:

-- the Stockholm Act (1979) of the Paris Convention for Protection of Industrial Property;

-- the Patent Cooperation Treaty (1984);

-- the Strasbourg Agreement on International Patent Classifications;

-- the Geneva Act (1979) of the Nice Agreement on International Classification of Goods and Services;

-- and, the Vienna Agreement establishing an international classification of figurative elements of marks.

*9. Worker Rights*

*a. The Right of Association:* All workers except police and military personnel have the right to associate freely and to form representative unions. Most workers also have the right to strike, but the constitution does not permit strikes among workers employed in the public utilities, petroleum, sanitation, education and national defense sectors, or by workers responsible for protection of life and property. Turkish law requires collective bargaining before a strike. Solidarity, wildcat, and general strikes are illegal. The law on free trade zones forbids strikes for 10 years following the establishment of a free trade zone, although union organizing and collective bargaining are permitted. The high arbitration board settles disputes in all areas where strikes are forbidden.

*b. The Right to Organize and Bargain Collectively:* Apart from the categories of public employees noted above, Turkish workers have the right to organize and bargain collectively. The law requires that in order to become a bargaining agent, a union must represent not only "50 percent plus one" of the employees at a given work site, but also 10 percent of all workers in that particular branch of industry nationwide. After the Ministry of Labor certifies the union as the bargaining agent, the employer must enter good faith negotiations with it.

*c. Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor, and it is not practiced.

*d. Minimum Age for Employment of Children:* The constitution and labor laws forbid employment of children younger than age 15, with the exception that those 13 and 14 years of age may engage in light, part-time work if enrolled in school or vocational training. The constitution also prohibits children from engaging in physically demanding jobs such as underground mining and from working at night. The Ministry of Labor enforces these laws effectively only in the organized industrial sector.

In practice, many children work because families need the supplementary income. An informal system provides work for young boys at low wages, for example, in auto repair shops. Girls are rarely seen working in public, but many are kept out of school to work in handicrafts, especially in rural areas. The bulk of child labor occurs in rural areas and is often associated with traditional family economic activity, such as farming or animal husbandry. It is common for entire families to work together to bring in the crop during the harvest. The government has recognized the growing problem of child labor and has been working with the ILO to discover its dimension and to determine solutions. With the passage in 1997 of the eight-year compulsory education program (previously five years were compulsory), the government hopes the number of child workers will be reduced significantly. Children enter school at age 6 or 7 and are required to attend until age 13 or 14.

*e. Acceptable Conditions of Work:* The Ministry of Labor is legally obliged, through a tripartite government-union-industry board, to adjust the minimum wage at least every two years and does so regularly. Labor law provides for a nominal 45 hour work week and limits the overtime that an employer may request. Most workers in Turkey receive nonwage benefits such as transportation and meal allowances, and some also receive housing or subsidized vacations. In recent years, fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. Occupational safety and health regulations and procedures are mandated by law, but limited resources and lack of safety awareness often result in inadequate enforcement.

*f. Rights in Sectors with U.S. Investment:* Conditions do not differ in sectors with U.S. investment.

**Extent of U.S. Investment in Selected Industries** -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

| Category | | Amount |
|---|---|---|
| Petroleum | | 116 |
| Total Manufacturing | | 581 |
| Food & Kindred Products | 183 | |
| Chemicals & Allied Products | 91 | |
| Primary & Fabricated Metals | (1) | |
| Industrial Machinery and Equipment | 0 | |
| Electric & Electronic Equipment | -6 | |
| Transportation Equipment | 125 | |
| Other Manufacturing | (1) | |
| Wholesale Trade | | 61 |
| Banking | | 150 |
| Finance/Insurance/Real Estate | | 7 |
| Services | | 34 |
| Other Industries | | 26 |
| TOTAL ALL INDUSTRIES | | 1,076 |

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.